

Message Text

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ACTION ARA-10

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SIL-01 AGR-05 L-03 H-02 FEA-01 INT-05 PA-01 PRS-01

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R 171930Z NOV 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 2055

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SAN JOSE 4865

GUATEMALA ALSO FOR ROCAP

E.O. 11652: GDS

TAGS: EFIN, CS

SUBJECT: VIEWS OF IMF REPRESENTATIVE ON MONETARY
AND FISCAL POLICY

REF: SAN JOSE 4832

1. IN A MEETING WITH EMBOFFS, MIGUEL BONANGELINO, IMF
REPRESENTATIVE TO COSTA RICA, GAVE HIS CONFIDENTIAL
IMPRESSIONS OF THE CURRENT ECONOMIC SITUATION IN COSTA
RICA. HE FORESEES A TRADE DEFICIT IN 1975 OF ABOUT
\$242 MILLION, ACCOUNTED FOR BY ESTIMATED IMPORTS OF
\$737 AND EXPORTS OF \$495 MILLION. HIS LATEST ESTIMATES
OF TWO IMPORTANT AGRICULTURAL EXPORTS -- \$95 MILLION
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FOR COFFEE AND \$106 MILLION FOR BANANAS -- ARE LOWER

THAN THE ONES THE EMBASSY MADE A MONTH AGO.

2. BONANGELINO BELIEVES THAT COSTA RICA'S RESERVE LEVEL BY YEAR END WILL BE ABOUT \$5 MILLION BELOW LAST YEAR'S LEVEL. USING CENTRAL BANK AND EMBASSY CONCEPTS OF NET RESERVES WHICH DO NOT DEDUCT COSTA RICA'S CUMULATIVE OBLIGATION TO THE OIL FUND, AS IS DONE IN THE IMF SYSTEM OF BALANCE OF PAYMENTS ACCOUNTING. THIS WOULD MEAN THAT NET RESERVES AT THE END OF 1975 WOULD BE \$33 MILLION. THIS ESTIMATE DOES NOT TAKE INTO ACCOUNT THE \$30 MILLION LINE OF CREDIT WHICH HAS BEEN MADE AVAILABLE BY A CONSORTIUM OF BANKS HEADED BY FIRST NATIONAL CITY BANK, AND WHICH HAS NOT YET BEEN DRAWN DOWN, AND IN BONANGELINO'S OPINION PROBABLY WILL NOT BE DRAWN DOWN BEFORE YEAR END. IF IT WERE, IT WOULD MAKE A \$20 MILLION ADDITION TO RESERVES, AS \$10 MILLION OF IT WOULD GO TO REPAY AN EARLIER LOAN. THUS, IF IT WERE DRAWN DOWN, NET RESERVES WOULD RISE \$15 MILLION OVER LAST YEAR'S LEVEL, ACCORDING TO BONANGELINO'S ESTIMATE, TO A TOTAL OF \$53 MILLION. CURRENT RESERVES (END OF OCTOBER) ARE \$49 MILLION, AS COMPARED TO \$54 MILLION AT THE END OF SEPTEMBER.

3. ALTHOUGH CREDIT WILL EXPAND BY ABOUT 40 PERCENT AND THE MONEY SUPPLY BY 20 PERCENT TO 22 PERCENT IN 1975, BONANGELINO THINKS THAT THE GOVERNMENT'S MONETARY POLICY IS BASICALLY ON TRACK AND IS EFFECTIVELY SLOWING THE INFLATION RATE.

4. HE IS CONCERNED, HOWEVER, ABOUT THE GOVERNMENT'S FISCAL POLICY. ALTHOUGH THE 1976 BUDGET, CURRENTLY BEING DEBATED IN THE ASSEMBLY, AMOUNTS TO \$384 MILLION, A MODEST 14 PERCENT INCREASE OVER THE FINAL 1975 BUDGET OF \$337 MILLION, HE FEELS THAT TREMENDOUS PRESSURES EXIST FOR ALL KINDS OF ADDITIONAL GOVERNMENT SPENDING THAT COULD WELL PUSH THE FINAL BUDGET AT THE END OF 1976 TO AROUND \$438 MILLION. THIS WOULD MEAN A DISTURBING 30 PERCENT INCREASE OVER 1975. IN HIS VIEW, THIS WOULD CERTAINLY LEAD TO UNBEARABLE PRESSURE ON THE CENTRAL BANK TO LOOSEN CREDIT RESTRICTIONS AND, CONSEQUENTLY, UNLEASH ANOTHER ROUND OF INFLATION.
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5. COMMENTS: THE EMBASSY SHARES THE IMF REPRESENTATIVE'S CONCERNS OVER THE GOVERNMENT'S FISCAL POLICY. WE UNDERSTAND THAT THE MINISTRY OF FINANCE HAS A 500 MILLION COLONES (\$59 MILLION) BUDGET OF HIGH PRIORITY SPENDING ITEMS NOT INCLUDED IN THE BUDGET, MANY OF WHICH ARE SAID TO BE UNAVOIDABLE EXPENDITURES SUCH AS FOR PAY INCREASES. BECAUSE OF THESE ITEMS, AND THE INCLINATION

OF THE GOVERNMENT TO PUSH AHEAD WITH SOCIAL PROGRAMS
TO "CLOSE THE SOCIAL GAP," WE AGREE THAT IT WILL
BE DIFFICULT FOR THE GOVERNMENT TO RESIST PRESSURES
FOR ADDITIONAL SPENDING. BRS, WHETHER THE FINAL 1976
BUDGET REACHES THE HEIGHTS OF \$438 MILLION DEPENDS TO
A LARGE EXTENT ON THE RESOLUTION WITH WHICH THE GOVERNMENT
IMPLEMENTS ITS "AUSTERITY PROGRAM" ANNOUNCED
RECENTLY BY PRESIDENT ODUBER AND REPORTED IN REFTEL.
TODMAN

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